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University of Alberta
1-18 Business Building
Edmonton, Alberta T6G 2R6

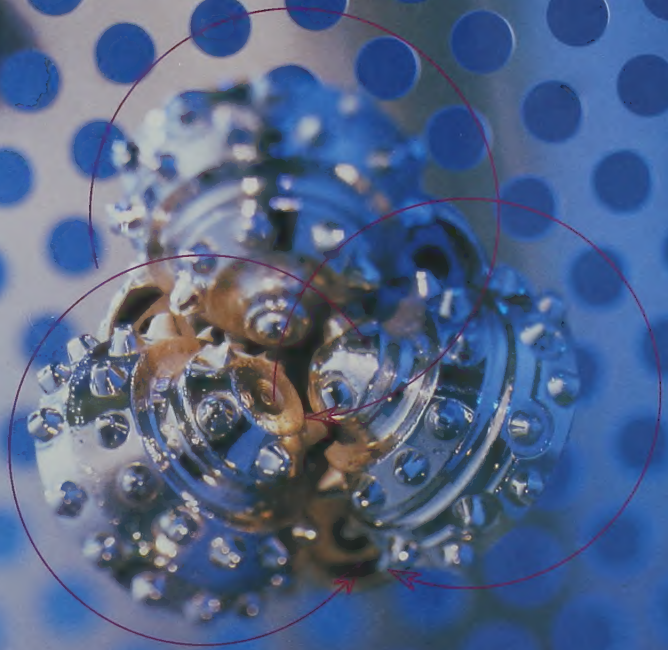
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Newgate Resources Ltd.

a year of growth via exploration

1994 Annual Report

with a tripling of production



Notice of Annual General Meeting

Newgate Resources Ltd. encourages all shareholders to attend their Company's Annual General Meeting at 10:00 AM on Wednesday, May 17, 1995 at the Calgary Petroleum Club, Calgary, Alberta.

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Corporate Profile

Newgate Resources Ltd. is a growing junior public company engaged in oil and natural gas exploration, acquisition, and production activities in the province of Alberta. During 1994, the Company's first full year of operations, Newgate achieved exit production of 250 BOE per day, production revenues of $950,000 and net cash flow of over $300,000. The Company trades on the Alberta Stock Exchange, under the symbol "NGT".

Newgate focuses its operations on low to medium risk exploration and development drilling opportunities and strategic acquisitions that provide immediate cash flow. The Company targets an equal weighting between oil and gas production to provide stability against product price fluctuations. Newgate increased its financial and production base during 1994, principally by building on the operations it established during 1993 in the Wainwright area, and by pursuing technically sound drilling prospects in selected areas in eastern and central Alberta. Since Company inception in early 1993, Newgate has demonstrated growth through exploration and development drilling without the benefit of a significant acquisition.

Highlights

	1994	1993	Percent Change
Financial			
(in thousands of dollars except where noted)			
Oil and gas sales (net of royalties)	950	235	303
Cash flow from operations	302	1*	–
Net income	(156)	(22)	596
Working capital	(1,719)	(658)	161
Long term debt	–	–	–
Shareholder's equity	2,327	1,150	102
Capital expenditures	2,733	2,164	26
General & administrative expense	338	141	140
Common shares issued and outstanding (millions)			
Basic	30.0	23.0	30
Fully Diluted (excluding warrants)	33.0	25.0	32
Operating			
Wells drilled			
Gross	7	11	
Net	1.57	9.25	
Oil	0.52	8.10	
Gas	0.60	1.15	
Dry & Abandoned	0.45	–	
Average daily production			
Crude oil and NGL's (BOPD)	101	40	152
Natural Gas (mcf/d)	607	90	574
Barrels of oil equivalent (BOE/d)	162	49	230
Reserves, proved and probable additional			
Crude oil and NGL's (MBbls)	580	480	21
Natural Gas (Mmcf)	570	640	(11)
Barrels of oil equivalent (MBOE)	637	544	17

* Restated

Corporate Profile

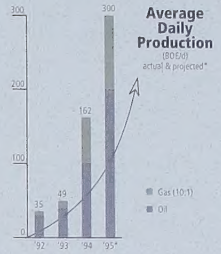
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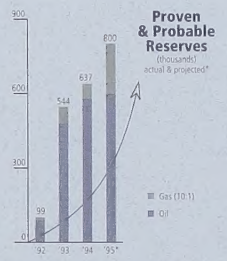
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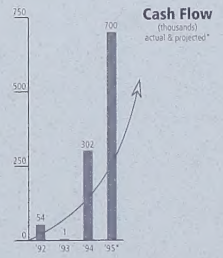
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* *Restated*







I am pleased to report that your Company achieved solid growth during 1994 in spite of volatile product prices and deteriorating capital markets. Newgate increased cash flow and total reserves while tripling average daily production compared to 1993. The Company is maturing into an exploration company and much internal effort has been devoted to building a land and prospect inventory base to propel future growth.

At Wainwright, Newgate commissioned its gas facility in mid-April and negotiated a firm service contract later in the year to help stabilize cash flow. Total Wainwright oil production has not met expectations because of inadequate pressure maintenance; however, several above-average performing wells confirm that substantial oil recovery efficiency potential exists with a prudent waterflood scheme in place. ➢ Newgate recorded production and reserve gains despite drilling fewer wells this year. This reflects a greater emphasis on exploration activity, which requires longer lead times to develop. During May, Newgate participated in a Leduc oil producer at Chigwell, Alberta, and Newgate subsequently operated its first well in July at Ribstone, discovering multi-zone Lower Mannville oil and gas. Newgate did not meet with drilling success at Neutral Hills but the Company applied appropriate risk management by minimizing its working interest exposure. Newgate will operate future activities in the area based on internal prospect generation efforts. ➢ In May, Newgate raised $1.2 million by way of private placement at a price of $0.20/share. Concurrently, Newgate added significant depth to its Board of Directors with the additions of Messr. S. Patrick Shouldice and Harvey A. Trimble to replace retiring Directors Messr. Stuart J.Thorn and Michael B. Frisby. As well, Mr. Jim K. Fleming, a significant shareholder, became actively involved as Newgate's operations manager.

We believe three ingredients are essential to Newgate's long term viability: it must have a well founded strategy, it must have good people, and it must be well funded. Newgate's growth strategy is sound, and Newgate's personnel have the expertise and network to implement this strategy. However, to prevent constrained activity levels, Newgate will not rely solely on equity markets to supply risk capital. In future, Newgate plans to increase exposure to joint venture funding in order to execute Newgate projects. This approach will minimize share dilution when the share price trades at undervalued levels. If appropriate, Newgate will also conduct prospect-specific financing. ➢ Newgate's production and reserves growth did not favourably impact its share price in 1994 principally because of the dilutive effect of a large number of outstanding shares, accompanied by widespread market sell-off of energy stocks. As Newgate continues to add reserves and production, underlying asset value and cash flow increases will be recognized. ➢ The intense and competitive industry activity which characterized 1994, increased costs for acreage, seismic and drilling. We favourably interpret forthcoming moderation of industry activity levels as normal cyclicity, thus creating opportunity for Newgate to capture acquisition, exploration and development opportunities it has identified.

Robert J. Sumner
President & Director

Exploration & Development

During 1994, Newgate adhered to the following exploration and development philosophies:

- ➢ Internally generate most drilling prospects to ensure quality control.
- ➢ Participate in technically sound externally-generated prospects if considered strategic.
- ➢ Pursue low-cost multi-zone prospects at shallow to medium depth.
- ➢ Concentrate efforts in proven, geologically productive focus areas.
- ➢ Generate early cash flow by ensuring that timely market access for discoveries exists.
- ➢ Target a working interest level commensurate with risk; preferably 50 percent or higher.
- ➢ Build a geologically diverse production profile to provide cash flow stability.
- ➢ Target 50 percent gas: 50 percent oil weighting to dampen the effect of product price fluctuations.
- ➢ Establish strategic joint ventures with industry and non-industry partners.
- ➢ Apply proven cost reduction tactics such as selective land acquisition.
- ➢ Minimize risk using advanced seismic and drilling technologies.
- ➢ Operate whenever possible to control play development and to exert technical and cost controls.

Acquisitions

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➢ Newgate added modestly to its holdings in the Ribstone area but overall the Company was unsuccessful at capturing properties meeting its stated acquisition goals primarily because of unrealistic vendor expectations in a seller's market. Although Newgate's acquisition criteria are rigorous, management continues to believe that adhering to these principles will ensure profitability over the long term. Newgate will continue to seek out acquisitions which can be funded through joint ven Pr att ing ➢ ➢ ➢ ➢ ➢

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- ➢ Operate whenever possible to control play development and to exert technical and cost controls.

Acquisitions

Newgate conducted property and corporate acquisition efforts during 1994 with the intention of:

- ➢ Expanding holdings near existing operations,
- ➢ Increasing working interest in properties it already owns,
- ➢ Increasing working capital by merger,
- ➢ Establishing new core areas.

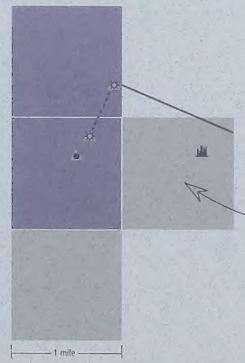
➢ Newgate added modestly to its holdings in the Ribstone area but overall the Company was unsuccessful at capturing properties meeting its stated acquisition goals primarily because of unrealistic vendor expectations in a seller's market. Although Newgate's acquisition criteria are rigorous, management continues to believe that adhering to these principles will ensure profitability over the long term. Newgate will continue to seek out acquisitions which can be funded through joint venture partnerships during 1995. Prospective oil and gas properties are attractive to Newgate when the following criteria are met:

- ➢ Operatorship is or will be available.
- ➢ High working interest or potential for consolidation exists.
- ➢ Long-life reserves.
- ➢ Exploitation potential exists.
- ➢ Exploration scope available nearby.
- ➢ Reserve cost less than $4.00/BOE or 4 times annualized cash flow.

Wainwright

Wainwright "core" oil and gas operations continue to provide stable cash flow for Newgate which has allowed the Company to expand exploration activities southward at Ribstone and northward at Wildmere.

Presently Newgate produces 1.10 Mmcf/d of Lower Mannville gas and 75 Bbl/d of Sparky oil. Wainwright oil production is lower than forecast in early 1994 because reservoir pressure has not been maintained at operations immediately adjacent to Newgate's holdings. There is additional scope to lower operating costs and add incremental gas and oil volumes during 1995. Newgate has been conducting seismic calibration work with the intention of applying its findings at Wainwright to adjacent exploration play areas to delineate new Sparky oil pool targets.





Ribstone

Newgate operates the Ribstone play at a present working interest of 31.25 percent. Newgate and partners drilled two successful Colony gas wells at Ribstone at 8-15 and 10-10 in July and October respectively. At year-end, a pipeline and gas facility had been constructed and the 8-15 discovery gas well is anticipated to begin production at a gross rate of approximately 750 mcf/d in early January 1995. Additional gas production from 10-10 will be tied-in during the first quarter of 1995.

The 10-10 vertical heavy oil well is being produced intermittently and the Company is currently investigating the potential of applying horizontal well technology to the McLaren oil zone. An independent engineering review estimates net probable reserves of 124,000 Bbl. Considerable upside exists if recovery efficiency can be modestly increased. Two sections of land are presently controlled by the Ribstone partnership and a further two sections are under option. Shareholders can expect Newgate to conduct further exploration here.

Wildmere

The Company has assembled 1088 Hectares of prospective lands in the Wildmere area. At year-end Newgate's working interest level is 100 percent. Two seismically-defined Colony gas prospects have been mapped, and Newgate plans to test these features with an industry joint-venture partner during 1995. A wide selection of gas infrastructure is located approximately 5 km distant to permit rapid tie-in if gas reserves are discovered.

Neutral Hills - Provost

Newgate participated for a nominal 15 percent working interest in the drilling of four exploratory wells to test the Dina sand. Although risk was reduced through the use of a 3D seismic survey, all wells were deemed uneconomic and abandoned. Newgate has examined the potential in the area and intends to pursue several internally generated prospects.

Chigwell

Newgate participated for a 37.5 percent working interest before pay out and a 22.5 percent interest after pay out in drilling a successful development Leduc oil well in May. Risk was controlled by excellent 3D seismic coverage. Production of high netback, light gravity oil was initiated in September at 120 Bbl/d. Gross recoverable reserves are estimated to be 225,000 Bbls. A second 3D seismic survey was acquired in December on partner controlled lands to delineate potential drilling locations for 1995.

Financial Review

Newgate's financial strategy is to Maintaining performance compen Reinvesting 100 percent of cash fl

- Limiting debt to 1.5 times annualized operating cash flow.
- Utilizing debt for facilities and equipping, and cash flow and equity to fund exploration.
- Limiting dry hole costs to less than $150,000 per well including contingencies.
- Exercising diligent cost control.

Asset Base

On the basis of an independent engineering appraisal as of December 31, 1994, the present value of Newgate's proved and probable reserves at a 15 percent discount rate is $5,066,000, which is 76 percent higher than 1993 results.

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Financial Review

Newgate's financial strategy is to maximize revenues and cash flow by: Maintaining performance compensation schemes and modest salary levels. Reinvesting 100 percent of cash flow.

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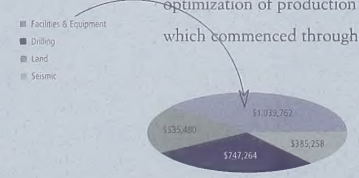
Gas Marketing

Newgate has pursued a policy of balancing risk to maximize cash flow in its gas marketing activities. Wainwright gas is on firm service at a contracted price of $1.72 per mcf until November 1, 1995. Ribstone gas has firm service with production to be split between a 95 percent WACOG deal and the spot market. Newgate intends to continually review its gas marketing efforts with the goal of achieving the best possible price in volatile gas markets.

Revenue and Operating Expenses

The primary factors impacting 1994 financial results included higher production resulting from successful exploration drilling at Chigwell and Ribstone and facility tie-ins and start-ups. External influences including improvement in pricing differentials for heavier crude were partially offset by decreases in gas prices and the uncertain market for gas not committed to firm service contract. For the period ended December 31, 1994, Newgate realized revenue of $1,009,154, net loss before income taxes of $130,244 and cash flow from operations of $302,202. ➢ Crude oil prices for the company averaged $18.30 per barrel and $1.70 per mcf during 1994. Net royalties which averaged 9.6% of total gross sales included Crown, Freehold and Gross Overriding Royalties. ➢ Total net operating expense paid by Newgate in 1994 was $322,326 or $5.46 per BOE produced. Newgate will continue to monitor and initiate cost saving measures in its operations. In 1995 total expenses per BOE should decline as a result of Newgate's increasing level of "Operatorship" and optimization of production operations which commenced throughout 1994.

Capital Expenditure Summary



Investing Activities

The Company invested over $2,732,654 million in 1994. ➢ Tie-in of Newgate's 1993 Wainwright gas discovery was completed in April and required an expenditure of $738,967 for pipeline, construction and facilities. The tie-in of the Ribstone 8-15-44-5W4M discovery to Newgate's 31.25% share of the pipeline and production facilities constructed during the fourth quarter of 1994, was completed at an additional cost of $147,417. ➢ Seismic and drilling activities accounted for additional total expenditures of $1,132,522. Land acquisition of 5,440 gross acres, 3,848 net, required the investment of $535,480.

Financing Activities

During the first quarter of 1994 the company entered into a private placement agreement to issue 6,000,000 shares at a price of $.20 for proceeds of $1,200,000. Each share in the private placement also carried a $.30 warrant exercisable for one additional share to September 30, 1995. ➢ A rights offering which closed in October enabled existing shareholders to purchase a combination of common and flow-through shares and a warrant exercisable to September 30, 1995. The offering was impaired by sellers of 1993 flow-through shares in a weak market and by a lack of market price support and resulted in gross proceeds of $296,000, from a possible $1,405,000 total placement. The rights offering did enable Newgate to obtain Ontario and British Columbia reporting issuer status which will contribute to shareholder liquidity.

Administration Expense

Ongoing exploration and development programs require the identification and capitalization of the Company's associated G & A expense. In 1994 the Company capitalized $154,131 of the gross 1994 G & A expense of $492,990. 1995 G & A expenses are not forecast to increase materially beyond those of 1994.

Stock Trading

Newgate traded a total of 4,519,310 shares in 1994 for a value of $977,660 and an average price of $0.22 per share. Prices ranged from a low of $0.10 to a high of $0.39.

1994 Stock Trading



To the Shareholders
Newgate Resources Ltd.

We have audited the balance sheets of N
and 1993 and the statements of loss and deficit and cash flow for each of
ments are the responsibility of the company's management. Our respons
statements based on our audits.

We conducted our audits in accordance w
standards require that we plan and perform an audit to obtain reasonabl
free of material misstatement. An audit includes examining, on a test ba
sures in the financial statements. An audit also includes assessing the acc
made by management, as well as evaluating the overall financial statem

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Calgary, Alberta, March 3, 1995

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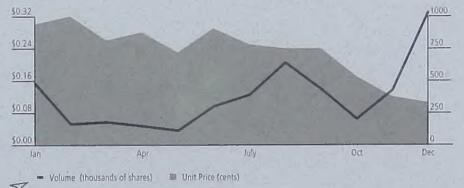
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1994 Stock Trading



To the Shareholders
Newgate Resources Ltd.

We have audited the balance sheets of Newgate Resources Ltd. as at December 31, 1994 and 1993 and the statements of loss and deficit and cash flow for each of the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at December 31, 1994 and 1993 and the results of its operations and cash flow for each of the years then ended in accordance with generally accepted accounting principles.

Collins Barrow

Calgary, Alberta, March 3, 1995

Chartered Accountants

Balance Sheet

	1994	1993
Assets		
Current assets		
Accounts receivable	$ 787,254	201,156
Property and equipment (note 3)	4,063,309	1,810,186
	$ 4,850,563	$ 2,011,342
Liabilities		
Current liabilities		
Bank indebtedness (note 4)	$ 1,769,802	$ 85,381
Accounts payable and accrued liabilities	736,509	773,372
	2,506,311	858,753
Provision for future site restoration costs	18,000	2,300
Shareholders' Equity		
Share capital (note 5)	2,529,520	1,197,077
Deficit	(203,268)	(46,788)
	2,326,252	1,150,289
	$ 4,850,563	$ 2,011,342

Approved on behalf of the Board.

, Director , Director

Statements of Loss and Deficit

	1994	1993
Revenue		
Oil and gas sales	$ 1,050,970	$ 257,936
Less: Royalties	100,720	23,369
	950,250	234,567
Gas marketing income	1,519	–
Interest	806	8,302
Alberta royalty tax credit	56,579	7,556
	1,009,154	250,425
Expenses		
Operating	322,326	96,042
Interest	45,766	12,460
General and administrative	338,859	141,393
	706,951	249,895
Cash flow generated from operations	302,203	530
Gain on sale of marketable securities	–	(68,050)
Depletion and depreciation	432,447	91,061
Loss before income taxes	130,244	22,481
Income taxes (note 6)	26,236	–
Net loss	156,480	22,481
Deficit, beginning of year	46,788	24,307
Deficit, end of year	$ 203,268	$ 46,788
Net loss per share	$ 0.006	$ 0.001

Balance Sheet

	1994	1993
	$ 787,254	201,156
	4,063,309	1,810,186
	$ 4,850,563	$ 2,011,342
ebtedness (note 4)	$ 1,769,802	$ 85,381
s payable and accrued liabilities	736,509	773,372
	2,506,311	858,753
Provision for future site restoration costs	18,000	2,300
ers' Equity		
capital (note 5)	2,529,520	1,197,077
	(203,268)	(46,788)
	2,326,252	1,150,289
	$ 4,850,563	$ 2,011,342

Statements of Loss and Deficit

	1994	1993
Revenue		
Oil and gas sales	$ 1,050,970	$ 257,936
Less: Royalties	100,720	23,369
	950,250	234,567
Gas marketing income	1,519	–
Interest	806	8,302
Alberta royalty tax credit	56,579	7,556
	1,009,154	250,425
Expenses		
Operating	322,326	96,042
Interest	45,766	12,460
General and administrative	338,859	141,393
	706,951	249,895
Cash flow generated from operations	302,203	530
Gain on sale of marketable securities	–	(68,050)
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Deficit, end of year	$ 203,268	$ 46,788
Net loss per share	$ 0.006	$ 0.001

Statement of Cash Flow

	1994	1993
Operating activities		
Net loss	$ (156,480)	$ (22,481)
Add items not requiring cash		
Gain on sale of marketable securities	–	(68,050)
Depletion and depreciation	432,447	91,061
Income taxes	26,236	–
	302,203	530
Net change in non-cash working capital balances	(163,571)	34,879
	138,632	35,409
Financing activities		
Repayment of long-term debt	–	(250,000)
Issuance of share capital	1,602,607	1,190,000
Share issuance costs	(233,616)	(31,119)
	1,368,991	908,881
Investing activities		
Proceeds on disposal of property and equipment	–	477,375
Proceeds on sale of marketable securities	–	545,425
Acquisition of property and equipment	(2,732,654)	(2,163,979)
Acquisition of marketable securities	–	(477,375)
Net change in non-cash working capital balances	(459,390)	571,443
	(3,192,044)	(1,047,111)
Cash outflow	(1,684,421)	(102,821)
Cash (bank indebtedness), beginning of year	(85,381)	17,440
Bank indebtedness, end of year	$(1,769,802)	$ (85,381)

Notes to Financial Statements

1. Company activities

The company's activities are the acquisition of petroleum and natural gas rights and interests and the exploration for, and the development and production of, crude oil and natural gas.

2. Significant accounting policies

a) Exploration and development costs The company follows the full cost method of accounting for exploration and development expenditures, wherein all costs related to the exploration for and the development of oil and gas reserves in Canada are initially capitalized. Costs capitalized include land acquisition costs, geological and geophysical expenditures, rentals on undeveloped properties, costs of drilling productive and non-productive wells, together with overhead and interest directly related to exploration and development activities and lease and well equipment. Gains or losses are not recognized upon disposition of oil and natural gas properties unless such a disposition would significantly alter the rate of depletion and depreciation. ➢ Depletion and depreciation is provided for using the unit-of-production method based on estimated gross proven oil and gas reserves as determined by independent and company engineers with gas converted to oil on an energy equivalent basis. ➢ Costs subject to depletion under the full cost method also include estimated future removal and site restoration costs. This would include the cost of production equipment removal and environmental cleanup based upon regulations and economic circumstances at year-end. The current year's provision for future removal and site restoration costs is included in depletion and depreciation expense. ➢ In applying the full cost method, the company performs a ceiling test which restricts the capitalized costs less accumulated depletion and depreciation from exceeding an amount equal to the estimated undiscounted value of future net revenues from proven oil and gas reserves, based on current prices and costs, and after deducting estimated future general and administrative expenses, estimated future removal and site restoration costs, financing costs and income taxes. **b) Joint ventures** Substantially all of the exploration and production activities of the company are conducted jointly with others and, accordingly, the accounts reflect only the company's proportionate interest in such activities. **c) Depreciation** Lease and well equipment are depreciated using the unit-of-production method. Other equipment is depreciated using the declining balance method at rates varying from 20% to 100% per annum. **d) Flow-through shares** Share capital includes flow-through shares issued pursuant to certain provisions of the Income Tax Act (Canada). The Act provides that, where the share issuance proceeds are used for exploration, development and land expenditures, the related income tax deductions may be renounced to subscribers. Accordingly, these expenditures provide no income tax deduction to the company. ➢ Oil and gas properties and share capital are reduced by the estimated cost of the renounced tax deductions when the expenditures are incurred. **e) Net loss per share** Net loss per share is calculated using the weighted average number of common shares of 26,780,169 (1993 – 18,869,864) outstanding during the year.

3. Property and equipment

	Cost	Accumulated Depletion and Depreciation	Net Book Value 1994	Net Book Value 1993
Petroleum and natural gas properties including exploration and development thereon	$ 3,150,010	$ 459,683	**$ 2,690,327**	$ 1,325,891
Lease and well equipment	1,583,560	237,512	**1,346,048**	467,922
Other equipment	60,787	33,853	**26,934**	16,373
	$ 4,794,357	$ 731,048	**$ 4,063,309**	$ 1,810,186

Future removal and site restoration costs are estimated to – $800) has been charged to current earnings. ➢ Duri… istrative expenses in the amount of $154,131 (1…

4. Bank indebtedness

Bank overdraft
Revolving loan
Demand note

The revolving loan consists of a credit fa… 1.0%. During th… ing interest at prime plus 1.0%. The company has provided by way of a general security agreement, a specific assignment of d… debenture on all other assets, a general assignment of book debts… and a letter of undertaking not to pledge assets of the compan… will be converted to a term loan effective May 31, 1995

5. Share capital

a) Authorized
Unlimited number of common shares
Unlimited number of preferred shares
b) Issued
Common Shares
Balance, December 31, 1992
Issued for cash pursuant to subscription agreements
Reduction in respect of income tax deductions renounced to…
Balance, December 31, 1993
Issued to two executive officers for cash pursuant to a priv…
Issued in satisfaction of accrued and unpaid renumeration to… executive officers
Issued pursuant to Special Warrants (note 5…
Issued pursuant to public offering (note 5(d))
Reduction in respect of income tax deductions renounced to…
Balance, December 31, 1994
Less: Share issuance costs
Balance, December 31, 1993
Additions
Tax benefit from deducting share issuance costs
Balance, December 31, 1994

Statement of Cash Flow

	1994	1993
ting activities		
Net loss	$ (156,480)	$ (22,481)
Add items not requiring cash		
Gain on sale of marketable securities	–	(68,050)
Depletion and depreciation	432,447	91,061
Income taxes	26,236	–
	302,203	530
Net change in non-cash working capital balances	(163,571)	34,879
	138,632	35,409
cing activities		
Repayment of long-term debt	–	(250,000)
Issuance of share capital	1,602,607	1,190,000
Share issuance costs	(233,616)	(31,119)
	1,368,991	908,881
ting activities		
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Acquisition of marketable securities	–	(477,375)
Net change in non-cash working capital balances	(459,390)	571,443
	(3,192,044)	(1,047,111)
Cash outflow	(1,684,421)	(102,821)
Cash (bank indebtedness), beginning of year	(85,381)	17,440
Bank indebtedness, end of year	$(1,769,802)	$ (85,381)

Notes to Financial Statements

1. Company activities

The company's activities are the acquisition of petroleum and natural gas rights and interests and the exploration for, and the development and production of, crude oil and natural gas.

2. Significant accounting policies

a) Exploration and development costs The company follows the full cost method of accounting for exploration and development expenditures, wherein all costs related to the exploration for and the development of oil and gas reserves in Canada are initially capitalized. Costs capitalized include land acquisition costs, geological and geophysical expenditures, rentals on undeveloped properties, costs of drilling productive and non-productive wells, together with overhead and interest directly related to exploration and development activities and lease and well equipment. Gains or losses are not recognized upon disposition of oil and natural gas properties unless such a disposition would significantly alter the rate of depletion and depreciation. ➢ Depletion and depreciation is provided for using the unit-of-production method based on estimated gross proven oil and gas reserves as determined by independent and company engineers with gas converted to oil on an energy equivalent basis. ➢ Costs subject to depletion under the full cost method also include estimated future removal and site restoration costs. This would include the cost of production equipment removal and environmental cleanup based upon regulations and economic circumstances at year-end. The current year's provision for future removal and site restoration costs is included in depletion and depreciation expense. ➢ In applying the full cost method, the company performs a ceiling test which restricts the capitalized costs less accumulated depletion and depreciation from exceeding an amount equal to the estimated undiscounted value of future net revenues from proven oil and gas reserves, based on current prices and costs, and after deducting estimated future general and administrative expenses, estimated future removal and site restoration costs, financing costs and income taxes. **b) Joint ventures** Substantially all of the exploration and production activities of the company are conducted jointly with others and, accordingly, the accounts reflect only the company's proportionate interest in such activities. **c) Depreciation** Lease and well equipment are depreciated using the unit-of-production method. Other equipment is depreciated using the declining balance method at rates varying from 20% to 100% per annum. **d) Flow-through shares** Share capital includes flow-through shares issued pursuant to certain provisions of the Income Tax Act (Canada). The Act provides that, where the share issuance proceeds are used for exploration, development and land expenditures, the related income tax deductions may be renounced to subscribers. Accordingly, these expenditures provide no income tax deduction to the company. ➢ Oil and gas properties and share capital are reduced by the estimated cost of the renounced tax deductions when the expenditures are incurred. **e) Net loss per share** Net loss per share is calculated using the weighted average number of common shares of 26,780,169 (1993 – 18,869,864) outstanding during the year.

3. Property and equipment

			Net Book Value	
	Cost	Accumulated Depletion and Depreciation	1994	1993
Petroleum and natural gas properties including exploration and development thereon	$ 3,150,010	$ 459,683	$ 2,690,327	$ 1,325,891
Lease and well equipment	1,583,560	237,512	1,346,048	467,922
Other equipment	60,787	33,853	26,934	16,373
	$ 4,794,357	$ 731,048	$ 4,063,309	$ 1,810,186

Future removal and site restoration costs are estimated in aggregate to be $158,600, of which $15,700 (1993 – $800) has been charged to current earnings. ➢ During the year, the company capitalized general and administrative expenses in the amount of $154,131 (1993 – $NIL) and interest in the amount of $30,379 (1993 – $NIL). ➢ Property having a net book value of $846,700 (December 31, 1993 – $825,599) for accounting purposes has a nil cost for income tax purposes. ➢ Unproven properties in the amount of $566,729 (December 31, 1993 – $NIL) were excluded from costs subject to depletion.

4. Bank indebtedness

	1994	1993
Bank overdraft	$ 197,674	$ 85,381
Revolving loan	1,322,128	–
Demand note	250,000	–
	$ 1,769,802	$ 85,381

The revolving loan consists of a credit facility to a maximum of $1,500,000 bearing interest at prime plus 1.0%. During the year, the maximum credit facility was increased by $250,000 by way of a demand note bearing interest at prime plus 1.0%. The company has provided security for the credit facility and demand note by way of a general security agreement, a specific assignment of certain properties, a $2,000,000 floating charge debenture on all other assets, a general assignment of book debts, an assignment of natural gas sales contracts and a letter of undertaking not to pledge assets of the company for any other loans. ➢ The credit facility will be converted to a term loan effective May 31, 1995.

5. Share capital

a) Authorized
- Unlimited number of common shares
- Unlimited number of preferred shares

b) Issued

Common Shares	Stated Number	Value
Balance, December 31, 1992	15,571,234	$ 429,480
Issued for cash pursuant to subscription agreements	7,000,000	1,190,000
Reduction in respect of income tax deductions renounced to subscribers	–	(391,284)
Balance, December 31, 1993	22,571,234	1,228,196
Issued to two executive officers for cash pursuant to a private placement	292,600	79,002
Issued in satisfaction of accrued and unpaid renumeration to certain executive officers	117,400	27,000
Issued pursuant to Special Warrants [note 5(c)]	6,000,000	1,200,000
Issued pursuant to public offering [note 5(d)]	1,186,418	296,605
Reduction in respect of income tax deductions renounced to subscribers	–	(62,784)
Balance, December 31, 1994	30,167,652	2,768,019
Less: Share issuance costs		
Balance, December 31, 1993		31,119
Additions		233,616
Tax benefit from deducting share issuance costs		(26,236)
Balance, December 31, 1994		238,499
		$ 2,529,520

c) On May 30, 1994, the company issued 6,000,000 Special Warrants at a price of $0.20 per Special Warrant for aggregate proceeds of $1,200,000. Each Special Warrant entitled the holder thereof to acquire, without additional consideration, one common share and one warrant of the company at any time until October 31, 1994. On September 8, 1994, the company filed a final prospectus to qualify for the distribution of 6,000,000 common shares and 6,000,000 warrants issuable on the exercise of the Special Warrants. On October 20, 1994, 6,000,000 common shares and 6,000,000 warrants were eligible to be distributed upon the exercise of the Special Warrants and were subsequently issued. Each warrant entitles the holder to acquire an additional common share at a price of $0.30 per share until expiry on September 30, 1995. **d)** On September 8, 1994, the company filed a final prospectus to qualify for the distribution of 6,000,000 Special Warrants [note 5(c)] and 2,872,655 units upon the exercise of 22,981,234 rights. Eight rights entitled the holder thereof to acquire one unit at a price of $0.50 per unit until expiry on October 20, 1994. Each unit consisted of one common share and one flow-through common share with stated values of $0.20 and $0.30 respectively, and one warrant. Each warrant entitles the holder to acquire an additional common share at a price of $0.30 per share until expiry on September 30, 1995. ➢ On October 20, 1994, 593,209 units were eligible to be distributed upon the exercise of 4,745,672 rights and 593,209 common shares, 593,209 flow-through common shares and 593,209 warrants were subsequently issued. In addition, the company granted its agent an option to purchase 29,660 units consisting of two common shares and one warrant at a price of $0.50 per unit until expiry on October 20,1995. Each warrant entitles the agent to acquire an additional common share at a price of $0.30 per share on or before September 30, 1995. **e)** At December 31, 1994, 6,593,209 warrants are outstanding entitling the holder to acquire one common share at a price of $0.30 per share until expiry on September 30, 1995. **f)** During 1993, the company entered into stock option agreements with the directors of the company under which 1,407,123 common shares have been reserved for issuance. Effective June 18, 1994, 703,562 options may be exercised at a price of $0.25 per share until expiry on June 18, 1996. Effective June 18, 1995, the remaining options of 703,561 may be exercised at a price of $0.25 per share until expiry on June 18, 1996. ➢ During 1993, the company entered into stock option agreements with two executive officers of the company under which 500,000 common shares have been reserved for issuance. Effective November 24, 1994, 165,000 options may be exercised at a price of $0.28 per share until expiry on November 24, 1997. Effective November 24, 1995, an additional 165,000 options may be exercised at a price of $0.28 per share until expiry on November 24, 1997. Effective November 24, 1996, the remaining options of 170,000 may be exercised at a price of $0.28 per share until expiry on November 24, 1997. ➢ During 1994, the company entered into stock option agreements with certain executive officers and directors of the company under which 850,000 common shares have been reserved for issuance. Effective November 3, 1995, 283,333 options may be exercised at a price of $0.12 per share until expiry on November 3, 1998. Effective November 3, 1996, an additional 283,333 options may be exercised at a price of $0.12 per share until expiry on November 3, 1998. Effective November 3, 1997, the remaining options of 283,334 may be exercised at a price of $0.12 per share until expiry on November 3, 1998.

6. Income taxes

a) Income tax expense differs from that which would be expected from applying the effective Canadian federal and provincial income tax rates of 44.34% (1993 – 44.34%) to loss before income taxes. The difference results from the following:

	1994	1993
Expected income tax recovery	$ (57,750)	$ (9,968)
Increase (decrease) resulting from:		
Non-deductible crown payments, net of Alberta royalty tax credit	8,512	1,764
Resource allowance	(39,310)	–
Depletion on non-tax based assets	41,714	10,932
Reduction resulting from utilization of losses not previously recognized	(44,331)	–
Deferred tax benefit not recognized	111,876	–
Other	5,525	(2,728)
	$ 26,236	$ –

For income tax purposes, the current income tax expense is offset by the benefit from deducting share issuance costs. ➢ The income tax benefit from share issuance costs is deducted from share issuance costs when realized. Share issuance costs available for deduction against future taxable income, for which no benefit has been recognized in the financial statements, total $205,564 (December 31, 1993 – $24,895). **b)** The company has estimated non-capital losses available which may be applied to reduce taxable income of future years until expiry as follows:

1996	$ 16,300
1997	16,100
1998	7,000
2000	56,400
	$ 95,800

No benefit with respect to these losses has been recognized in the financial statements.

7. Commitment

During the year, the company entered into a lease agreement for office space for approximately one year and is committed to an annual payment of $37,800 in 1995.

Concept and Design: pfaing, creative. *Photography:* Boden/Ledingham. *Production:* DaSilva Graphics Ltd. *Printing:* Sundog Printing Limited

Photo: Standing from left to right, John N. Ost
Arthur P. Cox and Sharyl L. Anderst. Seated:



Directors and Officers

Robert J. Sumner, P.Eng., Director *President, Co-Chairman*	*Calgary, Alberta*
Arthur P. Cox, Director *Vice President, C.F.O., Secretary*	*Calgary, Alberta*
Kenton R. Donaldson, P.Geoph. *Vice President, Exploitation*	*Calgary, Alberta*
John N. Ostrom, P.Geol. *Vice President, Exploration*	*Calgary, Alberta*
James K. Fleming, Director *C.E.O., Operations Manager, Co-Chairman*	*Calgary, Alberta*
S. Patrick Shouldice, Director *Chairman & C.E.O. of Nowsco Well Service Ltd.*	*Calgary, Alberta*
Harvey A. Trimble, Director *President & Director of Trimble Resources Ltd.*	*Calgary, Alberta*
Peter Turner, Director *Investment Consultant*	*Toronto, Ontario*

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Solicitors Blain & Company Barristers and Solicitors
710, 555 - 4th Avenue S.W., Calgary, Alberta T2P 3E7

Bankers Bank of Nova Scotia,Calgary Commercial Banking Centre
240 - 8th Avenue S.W., Calgary, Alberta T2P 2N7

Listing Alberta Stock Exchange (NGT)
Shares Issued: 30,167,652

Abbreviatio

Alberta
Thousan
Barrel o (10 mcf
Barrel(s)
Barrels o
Thousan
Million c
Billion c
Natural
Per day
West Te

a price of $0.20 per Special Warrant
e holder thereof to acquire, without
mpany at any time until October 31,
alify for the distribution of 6,000,000
Special Warrants. On October 20,
be distributed upon the exercise of
es the holder to acquire an addition-
ber 30, 1995. **d)** On September 8,
of 6,000,000 Special Warrants [note
rights entitled the holder thereof to
0, 1994. Each unit consisted of one
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. 1996, the remaining options of
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6. Income taxes

a) Income tax expense differs from that which would be expected from applying the effective Canadian federal and provincial income tax rates of 44.34% (1993 – 44.34%) to loss before income taxes. The difference results from the following:

	1994	1993
Expected income tax recovery	$ (57,750)	$ (9,968)
Increase (decrease) resulting from:		
Non-deductible crown payments, net of Alberta royalty tax credit	8,512	1,764
Resource allowance	(39,310)	–
Depletion on non-tax based assets	41,714	10,932
Reduction resulting from utilization of losses not previously recognized	(44,331)	–
Deferred tax benefit not recognized	111,876	–
Other	5,525	(2,728)
	$ 26,236	$ –

For income tax purposes, the current income tax expense is offset by the benefit from deducting share issuance costs. ➢ The income tax benefit from share issuance costs is deducted from share issuance costs when realized. Share issuance costs available for deduction against future taxable income, for which no benefit has been recognized in the financial statements, total $205,564 (December 31, 1993 – $24,895). **b)** The company has estimated non-capital losses available which may be applied to reduce taxable income of future years until expiry as follows:

1996	$ 16,300
1997	16,100
1998	7,000
2000	56,400
	$ 95,800

No benefit with respect to these losses has been recognized in the financial statements.

7. Commitment

During the year, the company entered into a lease agreement for office space for approximately one year and is committed to an annual payment of $37,800 in 1995.

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James K. Fleming, Director, C.E.O., Operations Manager, Co-Chairman	*Calgary, Alberta*
S. Patrick Shouldice, Director, Chairman & C.E.O. of Nowsco Well Service Ltd.	*Calgary, Alberta*
Harvey A. Trimble, Director, President & Director of Trimble Resources Ltd.	*Calgary, Alberta*
Peter Turner, Director, Investment Consultant	*Toronto, Ontario*

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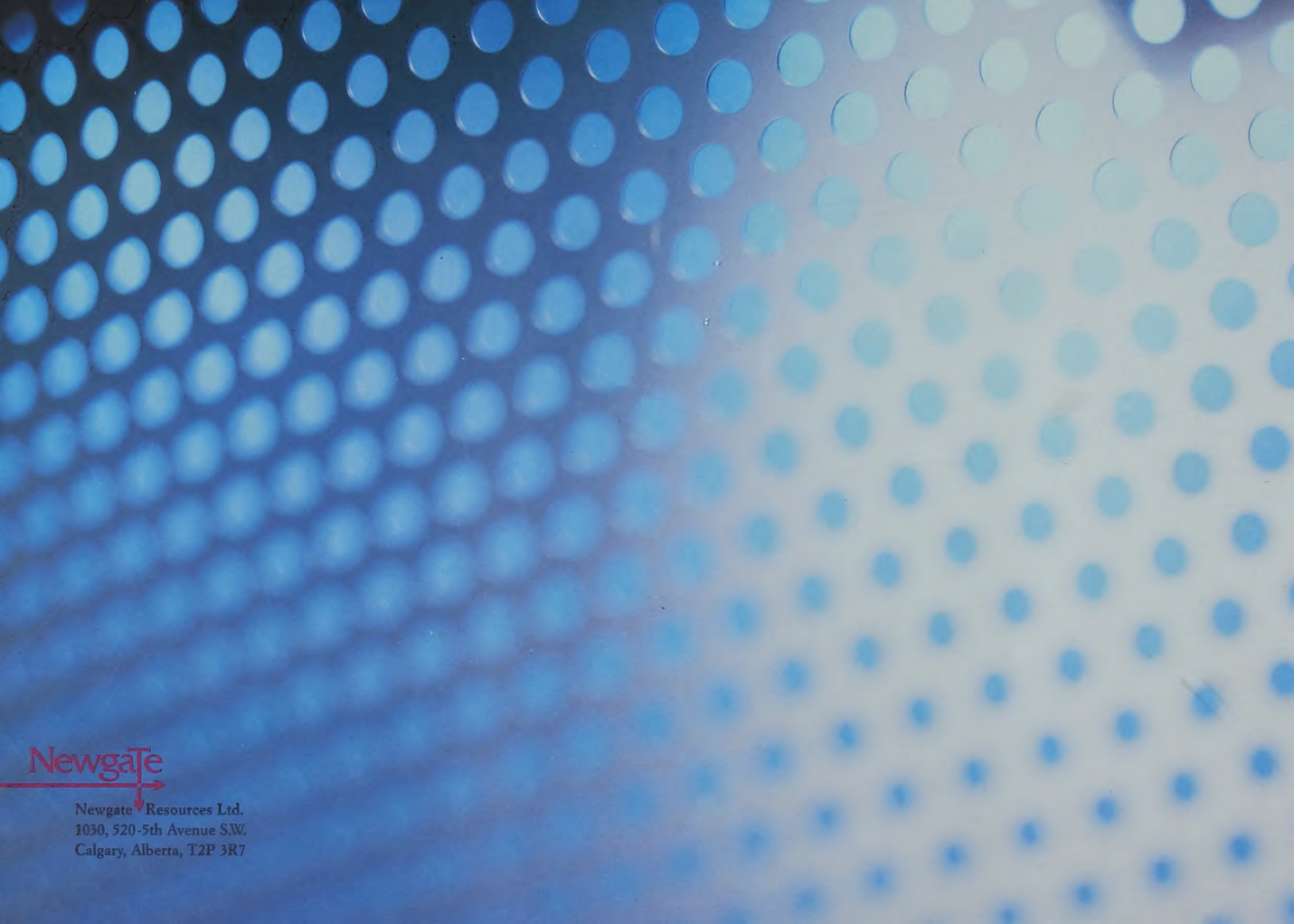
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Listing Alberta Stock Exchange (NGT)
Shares Issued: 30,167,652

Abbreviations

Alberta Tax Credit	ARTC
Thousand	M
Barrel of oil equivalent (10 mcf = 1BOE)	BOE
Barrel(s)	Bbls(s)
Barrels of oil per day	BOPD
Thousand cubic feet	mcf
Million cubic feet	Mmcf
Billion cubic feet	Bcf
Natural gas liquids	NGL
Per day	/d
West Texas Intermediate	WTI



Newgate Resources Ltd.
1030, 520-5th Avenue S.W.
Calgary, Alberta, T2P 3R7